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ABSTRACT

This paper maintains that the most influential management models for higher education derive from the corporate sector and that this crossover effect promises increasing board of trustee activism in the academic world. Corporate boards have come under increasing public pressure to be more responsive and responsible for active management. In turn, academic boards of trustees are reexamining their roles and effectiveness in the face of increased public scrutiny, constituent pressures, and media coverage. Boards are broadening channels of communication by meeting directly with constituents, probing strategic issues formerly not considered in their domain, and seeking to thoroughly inform themselves of their presidents' roles and performance. Changes include faculty representation on boards, more open meetings with members of the university community, and adoption of consent agendas that allow more time for consideration of strategic issues as less time is spent on routine matters. The relationship between boards and presidents will be reconfigured and systematic performance reviews may lead boards of trustees to relate pay to performance and more tightly control presidential perquisites and compensation. Among other changes, these will lead to academic boards functioning as senior corporate partners with their presidents, and boards that are informed, involved, and accountable. (Contains 38 references.) (JLS)

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Association of Governing Boards of Universities and Colleges

The New Activism of Corporate Boards and the Implications for Campus Governance

By Richard P. Chait

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EXECUTIVE SUMMARY

Board activism in the corporate world is changing the way businesses run. The author maintains that the most influential management models for higher education derive from the corporate sector and that this crossover effect promises increasing board activism in the academic world.

Traditionally, corporate boards of directors played a ceremonial and passive role in relation to their executives and businesses. A reform movement in the late 1980s prompted this to change, as boards sought to become better informed and more accountable for their decisions. By initiating face-to-face meetings with stakeholders and employees, boards gained information independent of their executives and became more intensely involved in the daily operations of their businesses. In turn, the historical allocations of power between boards and their chief executives have shifted.

Academic boards of trustees are reexamining their roles and effectiveness as well. Increased public scrutiny, constituent pressures, and media coverage of higher education issues are pushing boards to follow the corporate activist trend. First, boards are broadening channels of communication by meeting directly with constituents. Second, boards are probing strategic issues—once considered off-limits—and are altering their processes and structures in order to do so. Third, boards are seeking to thoroughly inform themselves of their president's roles and performance.

Given the corporate example, academic boards will become more like senior partners with their presidents—informed, involved, and ultimately accountable.

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Overview

This paper rests upon a simple premise: The most influential management models for higher education derive principally from the corporate sector. Whether correct or not, conventional wisdom holds that businesses are better managed than colleges and universities—or than symphonies, charities, and other nonprofit organizations for that matter. Therefore, legions of trustees, legislators, and philanthropists counsel and sometimes prod college administrators to adopt the tools and techniques of modern management as presented in schools of business and as practiced in the "real world."

Among the many innovations that have migrated over the years from companies to campuses are management by objectives, long-range planning, strategic planning, marketing, and quality-control circles.[1] In the early 1990s, colleges were captivated by Total Quality Management (TQM). Professors and administrators at universities from Columbia to Carnegie-Mellon to Oregon State to Purdue have established linkages with such corporations as IBM, Motorola, and Xerox to learn TQM first-hand (*Wall Street Journal*, December 15, 1992). Still more recently, as the luster of TQM faded a bit, colleges have started to embrace the concept of "reengineering" or "reinventing" organizations, now in vogue in corporate America.

The most active agents of this cross-pollination from industry to the academy are corporate executives who also serve as college trustees. Convinced for the most part that higher education should operate more like business, these senior managers are eager to help colleges employ the very practices they have implemented successfully in a different environment.

Because changes in business practices so often portend comparable changes on campus, college administrators and trustees would be wise to continuously monitor trends in the management and governance of the for-profit sector. For this reason, campus leaders—both professionals and lay-persons—should be well versed about one of the most dramatic changes to affect corporations in the last decade: the awakening of boards of directors.

The Origins of a Revolution

Like college boards of trustees, corporate boards of directors historically were rather honorific, ceremonial, and passive. Drawn largely from the CEO's "old

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[1] Occasionally and less prominently, reverse pollination occurs as ideas rooted in academe, such as superordinate goals, mission-driven strategies, and shared governance (or co-determination) spread to corporations. See, for example, Peter Brucker, "What Business Can Learn from Nonprofits," *Harvard Business Review*, July/August 1989, 88-93; and Richard Chait, "Look Who Invented Japanese Management!" *AGB Reports*, March/April 1982.

boys' network," outside directors dutifully approved the motions and actions recommended by management. The notion of "independent directors" was an oxymoron. In 1971, in one of the first studies of corporate boards, Myles Mace characterized directors as "ornaments on a corporate Christmas tree." Board behavior evolved in the 1970s and 1980s as courts and the American Bar Association's Committee on Corporate Laws established higher standards of stewardship that required "duty of care," "due diligence," and the oversight of corporate management expected of a "prudent person in a like position."

The reform movement accelerated in the late 1980s concurrent with the erosion of America's competitive position in the global marketplace. At the same time, however, executive salaries skyrocketed, frequently without any discernible relationship to the company's financial performance. Corporate profits were plunging, employees' wages were stalled, and layoffs were almost daily occurrences. Yet the CEOs' (and the directors') compensation continued to rise, sometimes dramatically so. Worse, the *New York Times* on June 2, 1992 identified at least five instances of "Boardroom Back-Scratching," where CEOs served as members of the compensation committee on one another's boards.

Boards are more susceptible to developments in corporate governance precisely because their trustees have adopted the corporate board of directors as a paradigm

A few particularly arrogant CEOs, unchecked by boards of directors, enjoyed conspicuously immoderate incomes and perquisites. To cite one example, at a time when Allegheny International (AI) had a record loss of $109 million, the company pampered senior managers aboard five corporate jets, provided $30 million in personal loans at 2 percent, and spent nearly $500,000 to refurbish the CEO's house. It also provided another $1 million to redo the penthouse of the chairman's son, who was on the payroll as the manager of a hotel owned by AI. In an August 11, 1986 cover story headlined "TROUBLE!" *Business Week* asked in a sidebar, "Where Was the Board of Directors?" This question was raised with increased frequency thereafter.

Weakened corporations were vulnerable to a frenzy of hostile takeovers, leveraged buyouts, and mergers and acquisitions. These events, coupled with the special arrangements negotiated for directors of takeover targets, precipitated concerns about whose interests the directors served. Axiomatically, directors are accountable to shareholders. Practically, however, many boards appeared to be more attuned to the interests of management and the directors themselves. Takeover bids that would have yielded a handsome and immediate gain for stockholders were resisted by managers and directors reluctant to cede control. The directors of Carter Hawley, for example, pressed shareholders to sell stock back to the company at 15 percent less than the initial buyout offer from The Limited, a tactic that produced a lawsuit by the Securities and Exchange Commission against Carter Hawley.

In September 1984, *Fortune* published "Why Directors Can't Protect the Shareholders." Ironically, it was written by Harold Geneen, the former CEO of IT&T and reputedly one of America's most tyrannical bosses. Convinced that boards "follow meekly where the chief executive leads," Geneen estimated that 95 percent of all Fortune 500 boards "are not fully doing what they are legally, morally, and ethically supposed to do.... The board of directors of any company is supposed to represent the interests of the owners—the shareholders.... That is what is supposed to happen. That is what may appear to happen. But it doesn't."

A year later, Robert K. Mueller, then chairman of Arthur D. Little, Inc. and a student of corporate governance, warned that "You can't just sit on a board and ratify what a management does any longer. Organizations have become so complicated that you have to have overseers to support yet challenge management. That's a role the board performs."

By the early 1990s, the voices of individual experts were reinforced by a chorus of concerns expressed by large institutional investors, most notably the California Public Employees Retirement System (CALPERS) and the Council of Institutional Investors. Both organizations, for example, released lists of companies that were ineffectively managed financial laggards. Other tactics, described below, intensified the pressure on boards of directors.

Drawn largely from the CEO's "old boys' network," outside directors dutifully approved the motions and actions recommended by management. The notion of "independent directors" was an oxymoron.

As the urgency "to do something" mounted, boards of some of the nation's most famous corporations decided to act. In the past two years, outside directors unceremoniously have dismissed a bevy of CEOs. The roll call from this bloodbath included, among others, the heads of IBM, General Motors, Eastman Kodak, Westinghouse, American Express, Tenneco, Goodyear, and Borden's. Even the CEOs of such financially successful companies as Sunbeam and Giddings & Lewis were ousted due to "bad chemistry" with the board.

Almost daily, the business section of the newspaper reported the occupational obituary of yet another chief executive, often the victim of a coup plotted by the very colleagues and friends the CEO handpicked to be directors. Jack Hanley, former CEO of Monsanto and a respected director, remarked forthrightly, "A good director is a pain in the ass—a guy who recognizes that he's not working to be the friend of the CEO but to do what's right for the owners of the business" (*Fortune*, June 15, 1992).

As the mighty sequoias of industry were felled by the directors' ax, the echo reverberated across the land. If *these* gentlemen were not safe, then who was?

This newfound disposition on the part of directors to dismiss CEOs is only the most dramatic evidence of a revolution in the boardroom. In several other important respects, the behaviors of boards of directors have changed. What have been the most fundamental changes?

Patterns of Communication. Traditionally, corporate CEOs have been fearful of direct two-way communication between directors and shareholders, employees, and customers. Such conversations, CEOs contended, all too easily undermine executive authority and obscure the distinction between management and governance. In the past, most directors (typically CEOs themselves) were sympathetic to these arguments. No longer.

The events of the past 15-20 years deepened directors' concerns about liability and raised the stakes to be well informed. To be entirely dependent upon a single source of information creates a risk that most directors no longer wish to assume. In an effort to be better and independently informed, many corporate boards have lowered or removed the barriers that traditionally blocked communication between directors and constituents. The most notable examples have been face-to-face conversations between directors and representatives of large institutional investors.

Officers of CALPERS, for instance, requested an invitation to meet with the independent directors, *without management present*, of 12 large corporations—including Sears, Polaroid, Time Warner, Boise Cascade, and Chrysler—for the express purpose of "shaking up entrenched management" (*New York Times*, January 23, 1993). Once regarded as an utterly unthinkable practice, each of the 12 boards granted CALPERS an audience. "We are convinced," stated Dale Hanson, then chief executive of CALPERS, "independent directors can and want to effect change that betters a company; they just have to know it is within their power to do it."

More important, changes resulted from these meetings. Advanced Micro Devices and Sears, Roebuck & Co. acceded to requests that the CEO quit the board's nominating committee. (The Connecticut public pension funds obtained a similar pledge from 38 other companies.) Time Warner agreed to reduce the size of its board from 22 members with eight insiders to 12 members with two insiders, and Boise Cascade modified a "poison pill" provision that made the company less attractive to potential suitors.

The avenues of communication to boards of directors extend well beyond institutional investors as many directors are equally determined to talk with other stakeholders. The outside directors of American Greetings, for instance, periodically visit card stores to meet the people who sell their products. As a way to stay close to the action, all directors of Home Depot, a hardware retailer, are expected to make eight to ten unannounced visits per quarter to company stores to speak anonymously to customers about the quality of Home Depot's products and services. Afterward, the directors meet

openly with employees to "hear workers' gripes" (*Wall Street Journal*, October 15, 1993).

Conversations between boards and constituents are now unremarkable. At one level, these dialogues are intended to familiarize outside directors with the company's business operations and production functions. That is, the discussions serve an educational purpose: to better equip directors to oversee management and govern the corporation. Increasingly, directors have recognized that they cannot afford to be unenlightened about the nature of the industry and the particulars of the corporation. As the trustee of a failed bank observed:

> *Any board member who is not committed to educating himself about the business of his board should resign. Lack of industry and company know-how handicaps directors in discerning trends and conclusions from the fragmented bits and pieces of data furnished by managers who have already applied their own interpretations.... [A director] must make the time to learn about the business on which board he sits. Directors must come to grips with the fundamental fact that it is impossible to understand the operations of a company—and therefore to be an effective director—merely by attending regularly called board meetings* (Jacobs, 1991).

At another level, however, meetings with stakeholders provide outside directors with an additional source of independent information, sometimes about very sensitive matters. For example, as one director of five publicly traded companies stated, "I don't want to hear from the CEO that we have one of the finest chief financial officers or one of the best human-resources vice presidents in the industry. I want to hear the opinions of plant managers, marketing directors, and personnel officers. If *they* have high praise for senior management, then that means something" (Cowen, 1992). In a similar vein, the General Motors board recommended that the company's directors have "complete access" to GM managers without prior authorization from the CEO (*New York Times*, March 29, 1994), and some directors of Digital Equipment Corporation (DEC) "seek out top managers for talks," visit plants, and review results with division heads and not just with the CEO and CFO (Dobrzynski, 1994).

Concern With Operations. The resolve of outside directors to have greater access to constituents reflects a related development—the tendency on the part of boards to become more involved in operations. The hallowed maxim has been that boards set policies that management implements. Operations or administration has been conventionally regarded as off-limits to boards, an inappropriate intrusion into the prerogatives of management. Now, under pressure from institutional investors and outside directors, "shareholders and corporate executives have reached a more intense level of involvement than had been the norm years ago" (*New York Times*, January 30,

1994). At DEC, for instance, the board has "begun delving deeper into DEC's business" (Dobrzynski, 1994).

In recent years, both directors and executives have had reasons to blur the sharp distinction between the board's territory and management's realm. From the board's perspective, directors want to avert surprises, embarrassment, and liability. Additionally, many boards want to respond positively to pressures from institutional investors to be alert, independent, and enlightened. After the well-publicized downfall of many renowned American companies, no board wants to be discovered asleep at the switch. From the directors' viewpoint, intensified oversight of day-to-day operations offers a measure of protection against bombshells and, as importantly, presents solid evidence of "due diligence" in the event that the company founders nonetheless.

Representative of this new, more probing and assertive spirit among outside directors is Walter Wriston, retired CEO of Citicorp and a member of nine boards of directors. He asked rhetorically, "Unless there's a director who wants to get in trouble, how do you start?" Sarah Teslik, executive director of the Council of Institutional Investors, which represents pension funds with $650 billion in assets, foresees still greater involvement by boards of directors. "The next phase of the shareholders' movement will result in more direct challenges to corporate managers on specific issues.... The next set of changes will come directly at management's expense...." (*New York Times*, January 30, 1994). A case in point, Jerry Pearlman, CEO of Zenith Electronics, meets biweekly with the company's board or the executive committee for two to four hours to "discuss ordinary business... [D]irectors have stripped Pearlman of the free rein that once was a corner-office prerogative. 'We've been working in the trenches,'" an outside director commented (*Business Week*, February 21, 1994).

Many corporate boards have lowered or removed the barriers that traditionally blocked communication between directors and constituents.

CEOs seek a measure of protection, too. As a safeguard against shareholder revolts, CEOs increasingly have chosen to incorporate investors' concerns into business decisions and strategic plans. Likewise, to reduce the risks of reprimand or dismissal by the board, management has invited outside directors to review comparatively routine matters as well as the implementation of policy and strategy. Some CEOs, "particularly those heading companies with financial woes," have included directors in day-to-day business decisions, scheduled regular strategic-planning sessions with the board, and brainstormed with directors one-on-one (*Wall Street Journal*, March 26, 1993). By contrast, corporate board meetings now feature far fewer "show-and-tell" sessions, displays of technological wizardry, and similar diversions.

Reallocation of Power. Taken together, these changes in the corporate boardroom have profoundly altered the balance of power among CEOs, directors, and shareholders. The shift was aptly captured in a *Fortune* cover story (January 11, 1993) that proclaimed: "The King Is Dead. Why More Boards Are Waking Up and Pushing Out the CEO." In this article, John Pound, a Harvard professor, predicted that "the CEO will look less like an emperor than like a congressman, trying to represent his various constituents and, to the extent he succeeds, being reelected." Two months later, a *Wall Street Journal* article, "Chief Executives See Their Power Shrink," (March 15, 1993) sounded the same theme: "The once seemingly absolute power of the Top Banana is peeling away.... Boards of directors, increasingly dominated by outsiders, are taking a more active role in managing companies, typically at the CEO's expense."

Directors have learned, often at a steep price, that no aspect of a corporation's activities should be beyond the directors' reach.

Where the CEO's power was once absolute and unquestioned, "things are beginning to look more like a partnership between shareholders and corporations," Pound observed (*The New York Times*, January 30, 1994). "You do not talk to anyone now who says institutional shareholders shouldn't have power or aren't corporate owners. That's an accepted fact of our capital markets." In this spirit, the GM board in March 1994 published 28 guidelines to "institutionalize sweeping changes in governance...aimed at shifting corporate power from the chief executive to non-employee directors" (*The New York Times*, March 29, 1994).

The signs of change are many: the shortened and more precarious tenure of CEOs, an estimated two-fold increase (from 14 percent to 28 percent) in formal performance evaluations of CEOs by directors[2] (*Wall Street Journal*, October 15, 1993), the assignment of an outside director to help set the agenda for board meetings, an increased tendency to separate the offices of the CEO and the chairman, less influence on the CEO's part over the selection process for directors, and the appointment of more outside directors far less inhibited by the "imperial status" of the CEO. Among these many modifications in process and behavior, perhaps one structural change best exemplifies the new activism: the regular opportunity for outside directors to meet without management present.

Walter Salmon, a professor at the Harvard Business School and a director of several corporations, serves on a board that "routinely plans executive

[2] By comparison, according to a 1992 survey by the National Association of Corporate Boards, 83 percent of all corporate boards reported "they have no process to evaluate individual board members." National Association of Corporate Boards, "1992 Corporate Governance Survey." Washington, D.C.

committee sessions right after the general board meetings.... The occasion allows us to ask each other if what inside directors said made sense." In the throes of a leadership crisis, American Express adopted the same practice. These occasions afford outside directors a chance to establish trust and to discuss openly and collectively vital issues that might otherwise be addressed clandestinely or not at all. Finally, these sessions symbolically differentiate the representatives of the owners from the highest ranks of the workers—a rather powerful message, undoubtedly lost on no one.

To summarize: Strong, unmistakable, and seemingly irreversible trends are afoot in the corporate sector that will lead to more active and presumably more accountable boards of directors. As with other initiatives in the corporate sector, there likely will be considerable spillover into higher education.

Implications for Higher Education

The consequences of the new activism among corporate boards will not, of course, be experienced evenly by all of the more than 3,000 American colleges and universities. At many community colleges and, to a lesser extent, at some four-year state colleges, trustees already are accessible to constituents, skeptical of recommendations from management, and immersed in day-to-day operations, often excessively so. On these campuses, the wave of new activism among corporate directors may prompt trustees and administrators to wonder, "So what's new?" Furthermore, some of the most provocative debates about corporate governance concern situations without parallels on college campuses—for example, the separation (or combination) of the offices of chairman and CEO, or the balance of inside and outside directors.

Nevertheless, the reforms of corporate governance will influence every segment of higher education to some degree. At the risk of generalization, institutions with a "classical" or typical governance model are likely to be the most affected. These schools, chiefly independent liberal arts colleges and research universities, are governed by boards characterized in one study of trusteeship, ironically, as "corporate boards":

> *In this model, the board plays a role in framing those financial and managerial issues that also arise in the corporate world, such as capital expenditures, property acquisition, and management of assets. At the same time, the board expects the president to assume full operating authority, and the president, to a degree that varies from institution to institution, orchestrates and controls the board's contacts with others on the campus* (Wood, 1985, p. 100).

In other words, these boards are most susceptible to developments in corporate governance precisely because their trustees have adopted the corporate board of directors as a paradigm. As that model changes, so too will the operative model on campus. Trustees will introduce new precepts and

new behaviors from the corporate boardroom to the campus boardroom.

Secondarily, certain less prestigious, less affluent institutions seem vulnerable too. These are colleges, fewer in number, where presidents have reigned supreme, and boards have ratified the "king's" decisions. As described by Wood (p. 94):

> *The ratifying board sees its role as providing a president for the college and then putting itself, as well as the college, in his or her hands. Board members' reliance on the president's advice is virtually total, and their relationships with other administrators, as well as with faculty and students, are superficial or almost non-existent.... [T]he board functions chiefly as an institutional support for the president....*

To the extent that "The King Is Dead," as *Fortune* proclaimed about CEOs, one might reasonably expect that the imperial college president and the docile board of trustees are endangered species, too.

What, then, are the most likely repercussions for higher education?

Increased Visibility and Vulnerability. As a rule, boards of trustees are not particularly visible during periods of institutional plenty and political calm. Prosperity solves most problems and covers most sins. However, when limited resources necessitate painful decisions, governing boards become more conspicuous because trustees must ultimately approve (or at least affirm) unpopular and controversial decisions, such as sharply increasing tuition, merging or terminating programs, eliminating personnel, or moderating salary increases.

Moreover, the 1990s are not the 1950s, the era of the "silent generation." Today, public controversies flood the academic landscape. Debates rage over political correctness, uncontrolled costs, faculty self-indulgence, an overemphasis on research to the neglect of teaching, and the continued feasibility of need-blind admissions, to name a few.

When corporate profits plummeted at the same time that executive compensation spiraled, investors applied intense pressure on boards of directors. Stockholders of lackluster companies pushed directors to oust ineffective executives, to curb lavish employment packages, to shed unproductive businesses, and to fortify the bottom line. Thrust into the public spotlight, boards of directors finally acted. As Nell Minow, an activist money manager, explained, "Like subatomic particles, corporate directors and managers behave differently when they know they are being observed" (*New York Times*, January 30, 1994).

Critics of college and university boards of trustees maintain that the same principle applies to higher education. The most powerful, if intem-

perate, salvo to date was fired by Martin Anderson, a senior fellow at the Hoover Institution. In *Impostors in The Temple* (1992, p. 194), Anderson held governing boards chiefly responsible for "the decline of the American university...for the current sorry state of affairs...[and] for the scandals of recent decades." Trustees, "the invisible men and women of American higher education," were indicted for indifference, aloofness, incompetence, and self-consideration, among other deficiencies. To provoke reform, Anderson advocated greater public scrutiny of governing boards:

> *The single group in our society with the power to bring the university trustees into the sunlight are the professional intellectuals in the press and the media. If they devoted some of their investigative energies to probing the workings of governing boards, it would be only a short time indeed before we saw some dramatic changes in the way our colleges and universities are governed.... [M]ost trustees dread the prospect of public examination....*(pp. 202-203).

To that end, an appendix to *Impostors in The Temple* lists the names, titles, and employers of the members of the boards of trustees of the ten colleges and universities Anderson regards as the *crème de la crème* of American higher education.

When limited resources necessitate painful decisions, governing boards become more conspicuous because trustees must ultimately approve (or at least affirm) unpopular and controversial decisions.

So far, the "professional intellectuals" who have followed the scent to the boardroom have not been kind. Richard Huber (1992, p. 14) a Yale Ph.D. and a former dean at Hunter College, castigated the typical board of a private college as "an uncoordinated, unpaid conglomerate of high-achieving individuals in the professions and business who are not always certain what they are supposed to do. What some members do know is that they are expected to acknowledge the honor bestowed upon them by abundant gestures of benevolence." Public boards fared no better. Their meetings were described as "a pursuit of individual agendas—rather like an assemblage of state legislators.... It's a chaos of voting motivations with contending educational objectives crisscrossing in an atmosphere in which civility blessedly rules as confusion unwillingly prevails."

Thomas Sowell, like Anderson a senior fellow at the Hoover Institution, publicly challenged trustees to demand accountability from campus executives just as corporate directors have learned to do. In an article aimed at business leaders, Sowell (*Forbes*, February 14, 1994) dared trustees to seize control and to tell the faculty, "You turkeys have had a free ride for too long. You are hired to teach. Do it!" No more teaching assistants in lieu of professors. No more reduced work loads to do research that's often little

more than "drivel." Trustees, Sowell declared, are sufficiently successful and economically secure that "They have no excuse for being gutless. If the trustees are not willing to risk even the passing discomfort of being unpopular, what good are they?"

Trustees may be tempted to summarily dismiss Anderson, Huber, Sowell, and other hypercritics as isolated voices with extreme views. At first, many corporate directors and CEOs underestimated shareholder activists too. The shrillness of the messengers does not necessarily mitigate the attractiveness of the messages for the media and the public at large. The call to scrutinize governing boards more closely and to subject trustees to greater public accountability has an intrinsic appeal to journalists, philanthropists, legislators, and parents of college students.

Where might this trail lead? At an operational level, newspapers may seek to interview the board's leaders and other trustees in the aftermath of a decision (for example, to raise tuition another 8 percent) that the editors regarded as questionable. Or reporters may ask trustees bothersome questions such as: "Why can't the board increase faculty productivity? Why doesn't the board eliminate weak programs and fire ineffective professors? Why can't the trustees refuse to raise tuition above the rate of inflation?" At private colleges, trustee attendance records might be requested. Parents and donors may ask that the board issue an annual report summarizing the financial and educational health of the institution and delineating the board's specific goals and measurable accomplishments.[3]

These examples, however, are symptomatic of a more fundamental change: College boards will become more visible and more vulnerable. Various stakeholders will seek (or demand) opportunities to pressure trustees directly and fervently to ensure that the college serves the needs and interests of key constituencies other than the faculty and the senior administration. Governing boards will be expected to challenge convention, to defer less to professionals on the payroll, and to revamp priorities, processes, and structures as necessary in order to remedy supposedly systemic and inherent problems. There will be few if any places for boards to hide from dissatisfied stakeholders. And if the most salient concerns of key constituencies persist, the media will trumpet the failures and feature the images of trustees rather than dwell on the foibles of faculty and administrators.

Broader Channels of Communication. In response to the demand for

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[3] Convinced that corporate boards have been unresponsive to shareholders, Representative Ed Markey of Massachusetts proposed legislation in April 1994 that would require directors to delineate "in plain English" in the corporation's annual report the specific steps that the board has taken to resolve "major problems" the company faces. Given the leverage the federal government has over colleges and universities, a similar requirement for boards of trustees would not seem to be beyond consideration.

boards to be more available and more accountable, trustees probably will initiate more direct, unfiltered, uncensored interaction and two-way communication with key stakeholders. Some colleges already provide structured occasions for board-constituent communication. Among the most popular devices are benign "show and tell" sessions by professors, deans, and middle managers as well as innocuous social events and academic ceremonies. Until now, the norm has been that the president selects the personnel, arranges the functions, sets the agenda, and presides.

Governing boards will be expected to challenge convention, to defer less to professionals on payroll, and to revamp priorities, processes, and structures.

The future may hold more communication initiated by trustees and stakeholders that permits unrehearsed, unscripted dialogue between board members and faculty, students, staff, alumni, employers, parents, townspeople, and legislators. Thus, there may be far more instances of multiconstituency task forces or ad hoc committees where faculty, students, trustees, and administrators grapple together with a problem of common concern. Efforts to secure constituent representation on boards or board committees may increase.[4] More colleges may emulate Gettysburg, Hamilton, and Kalamazoo, where trustees dine periodically with faculty; or Wellesley, where trustees sometimes visit dormitories to converse with students; or Earlham and Cornell (Iowa), where trustees have convened open forums to discuss with students such matters as divestment, presidential selection procedures, and the quality of campus life.

These will not be sessions where exemplary students and faculty preen for board members on cue from the president. By the same token, a posse of trustees will not be on the loose to gather gossip and gripes or to lend an ear to every voice. Rather, these will be occasions, proposed and sometimes designed by the board, for trustees to listen, to inquire, to communicate, and to assess independently the health of the institution and the quality of relationships between the administration and key constituencies. No longer will be the board simply accept the chief executive's assurance that "all's well."

Acclimated to the reality that the corporate board can no longer defensibly deny a request to meet with institutional investors on grounds that such sessions erode the lines of authority, trustees will be far more

[4] A 1988 AGB survey revealed that the boards of 19 percent of private and 17 percent of public colleges included a local faculty member. The numbers for students were 14 percent and 61 percent respectively. Students and faculty serve on student affairs and academic affairs committees at almost 50 percent of all colleges.

disposed to meet with student and faculty leaders. In today's climate, would trustees dare decline a request, submitted by a coalition of parents concerned about tuition increases, to meet with the finance committee of the board? And just as directors have granted audiences to Jesse Jackson and PUSH to discuss black employment and advancement, will not college trustees open the boardroom door to civil-rights organizations concerned about institutional racism or the underrepresentation of African-Americans in professional positions? (Imagine the headline: "Trustees Refuse to Meet With NAACP. Cite Fear of End Runs.") Can a board dismiss similar requests from a neighborhood alliance concerned about "town gown" relations or from an informal circle of major donors worried about cost containment? As with corporate boards, the niceties of conventional protocols are likely to yield to the new realities of governance and the redistribution of power.

College presidents dead-set against unregulated communication between trustees and constituents are swimming against the tide.

There are staunch advocates of a different position. Most notably, James Fisher in *The Board and The President* (1991, p. 66) deplored "a growing tendency for governing boards to get overly involved in the administration of institutions [which] has led to ever closer relationships between boards and faculty, students, and staff." Regrettably, from Fisher's perspective, boards "have granted faculty and students access and rights that were formerly privileges to be granted, denied, or withdrawn by college presidents." These "countless instances of board/faculty/student formal associations" have the potential to "neuter" the presidency and to compromise the "role and the ability" of each constituency. One university president, an ardent subscriber to this point of view, boasted at an invitational seminar that "my trustees have to *earn* the right to talk to faculty and vice versa." Another stressed that "all conversations between trustees and staff as well as the agenda that staff will strictly follow at committee meetings have to be cleared by me."

Events in the corporate sector would seem to suggest, however, that college presidents dead-set against unregulated communication between trustees and constituents are swimming against the tide. The majority will either change direction or show up on the shore like so many beached whales.

Greater Involvement in Governance. The boards of most colleges and universities already are more inquisitive and more engrossed in opera-tions, especially business-related matters, than boards of for-profit entities. Thus, the new activism among corporate boards may not stimulate still deeper forays by trustees into the college's day-to-day management of administrative operations, finances, and physical plants. On the other hand, directors have learned, often at a steep price, that *no*

aspect of a corporation's activities—from executive perquisites to quality control to payoffs to foreign governments—should be beyond the directors' reach. Trustees, therefore, are more likely to insist that topics once considered more or less off-limits be open to examination. These might include promotion and tenure decisions, the academic quality of particular departments, faculty workloads, and the application of admissions criteria. Indeed, trustees seem poised to assert greater control, or at least exert stronger influence, over the content and format of board and committee agendas in order to generate meaningful discussions and consequential decisions.

This shift of purpose and focus has produced notable changes in board process and structure. Already, numerous college boards, Virginia Commonwealth University and Ithaca College to name two, have instituted "consent agendas," a parliamentary device that packages various routine items for approval without discussion. As a result, trustees devote less time to operations and more time to strategy. Other boards have introduced a "president's hour" or a "strategy session" to guarantee that the board regularly discusses at some length a topic of strategic or symbolic significance to the institution. Still others, Denison University, for example, rely more on multiconstituency task forces and similar ad-hoc work groups to address such strategic priorities as attrition, multiculturalism, and student financial aid that transcend the scope of traditional, functionally oriented committees such as finance, student life, and academic affairs.

Whatever the matter at hand, trustees are likely to be less deferential. Policy recommendations from management will undergo closer inspection. More questions—specifically, more nettlesome questions about the product line as well as the bottom line—will be asked, and perfunctory responses will not be abided. More data will be expected. More reservations will be expressed. More revisions may be required. Board meetings will be less scripted; outcomes will be less predetermined. Increasingly, at board meetings one will hear the voices of trustees in animated discussion far more frequently than the rhythmic thump of a rubber stamp.

Many college presidents understandably prefer meetings to be orderly and efficient, without any significant challenges to management's proposals. As one president allowed, "The best board meeting or committee meeting is one where the minutes can be written in advance." Absent clairvoyance, that will be a more and more difficult standard to achieve.

The board's assertiveness will not be limited to policy proposals. Life in the corporate boardroom has made trustees far more conscious of the board's responsibility for *results*. How did the board allow General Motors' market share to slip so badly, so quickly? Why did the board not act sooner to safeguard the market value of IBM's stock? Mindful of the need to monitor progress, Zenith's board developed 20 key performance variables. Any deviation from expectations receives "fast attention" by the board, either a

corrective measure or a plan to accommodate to the new information (*Business Week*, February 21, 1994).

In response to questions and events like these, we already can observe a greater attentiveness among college and university trustees to results. With the advent of strategic and comparative indicators for boards to track institutional performance, trustees are better educated and thus better situated to monitor progress and measure results whether in academic, financial; or administrative affairs (Taylor et al., 1991, 1993). Now policy evaluation or assessment engages trustees. Thus, the powerful concept of a "dashboard," a limited set of gauges or instruments that measure crucial aspects of institutional performance, has gained popularity among boards and trustee committees of colleges (Cornell, Eckerd, Earlham, and Andover Newton Theological Seminary, for example), hospitals, social-service agencies, and cultural organizations. Constructed collaboratively with staff, this device enables boards to monitor what matters and to detect (and correct) worrisome trends early.[5]

Reconfigured Relationships Between Boards and Presidents

College presidents and boards of trustees have inherently complicated, even paradoxical, relationships. On the one hand, the board employs, evaluates, and supervises the president. On the other hand, the president often educates and leads the board and exerts considerable influence, especially at private colleges, over the trustee selection process. To compound matters, board members and presidents frequently serve as confidantes, advisers, colleagues, and friends to one another. It's simply not as tidy an arrangement as the historical relationship between corporate CEOs and boards of directors.

Few college presidents have ever been as powerful vis-a-vis the board as CEOs in the corporate sector. Nevertheless, many college presidents have utilized well-established tactics—selective disclosure of information, slanted presentations, and camouflaged implications—to artfully maneuver the board to endorse the administration's proposals or to subtly deflect the trustees' attention from consequential matters. "My goal with the board," confessed one public university president, "is damage control. I do whatever's necessary to prevent trustees from significantly influencing the outcome of important events." Boasted the president of an independent liberal arts college, "I have my board right where I want them, in my hip pocket."

Such tactics and refrains are certain to become less commonplace and

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[5] As far as can be determined, college boards have not yet taken the next step: the appointment of a professional staff member directly responsible to the board and authorized to gather and analyze data independently for the board.

less successful. The experience of corporate boards indicates that trustees will become more detached and less prone to establish strong personal ties to the chief executive that could compromise one's objectivity. Supportive, yes. Subservient, no. In addition, boards surely will seek independent information from multiple sources and insist upon the opportunity to play a more central role in the development of institutional missions, strategies, and policies.

Finally, boards will exercise closer review of the president's effectiveness. Casual, informal annual appraisals by an inner circle of the board or the chair alone no longer will suffice. The pressure on boards to be accountable, the genuine desire to enhance the president's performance, and a concern to protect both parties will lead to greater use of methodical evaluations based upon explicit performance objectives. According to a comprehensive survey by the College and University Personnel Association, the prevalence of formal presidential evaluations increased from 55 percent to 78 percent between 1984 and 1991 (CUPA, 1991); an AGB survey the same year placed the percentage at 51 percent (Schwartz, 1992). In the future, there also may be a greater disposition to consult more widely—for example, to schedule regular executive sessions in which any trustee can comment on the performance of the president and other executive officers.[6]

Trustees will become more detached from the chief executive and less prone to establish strong personal ties that could compromise their objectivity.

Some boards may choose to confer with the leaders of significant constituencies and with senior managers to compile a complete picture of the president's performance. (The University of Denver and the Southern Alberta Institute of Technology, for example, conduct surveys of organizational climate and employee morale that provide the administration and the board with explicit feedback on executive effectiveness.)

An inevitable byproduct of more systematic performance reviews will be a keener effort by boards of trustees to relate pay to performance and to tighten the reins on presidential perquisites, especially now that the salaries of all college presidents are publicly available as part of the institution's reports to the Internal Revenue Service. Corporate directors already have been singed by the excesses exposed by Graef Crystal's revelation that several CEOs serve on each other's compensation committees. The public reaction to the scandalous extravagances enjoyed by the then-president of the United

[6] In the 1991 CUPA survey, 38 percent of the respondents that conducted the presidential performance reviews assigned that responsibility to the entire board, 28 percent to a board committee, and 13 percent to the board chairman (CUPA, 1991, p. 53).

Way of America under a board of trustees composed of preeminent corporate CEOs also reflected negatively on chief executives.[7]

College boards are equally susceptible to public wrath. The trustees of a large multicampus system, for example, were severely criticized in a national newspaper for "craven abdication of responsibility" for allowing their chief executive to serve as a director of five corporate boards. In another instance, a board decided to terminate the president only to realize that no one, other than legal counsel, had any knowledge of the president's employment contract. Many trustees are unaware of the most basic terms and conditions of the president's appointment—the existence and length of a contract, salary, benefits, bonuses, and severance arrangements. Conscious of the potential embarrassment to board members, corporate officers and directors on college boards will be far more vigilant and inquisitive about the president's compensation package.

To the extent that governing boards become more active, the future of higher education should be more promising.

All these trends do not imply that college presidents will be powerless figureheads. Presidents still will wield extensive influence. From a president's perspective, the bright side would seem to be that the board's greater familiarity with the chief executive's domain should instill trustees with a sharper appreciation of the constituent-driven, power-dispersed role of the college president and with a more realistic assessment of the president's opportunities and constraints.

By the same token, to the extent that the new activism of corporate boards touches higher education, one might logically expect that boards that were customarily deferential to faculty and instinctively supportive of the president (again, most typical of independent colleges) will become "constructively dissatisfied," as one corporate director labeled effective boards. College trustees will be more senior partners than silent partners vis-a-vis the president.

Conclusion

Activism among directors has permeated the corporate boardroom and produced notable changes. Colleges and universities seem susceptible to the same phenomenon, and indeed, there are early signs to that effect. The major implications for higher education are: (1) greater visibility and vulnerability for governing boards; (2) broader and more direct channels of communication

[7] In response to these events, the National Association of Corporate Directors impaneled a "Blue Ribbon Commission on Executive Compensation" that produced *Guidelines for Corporate Directors* (NACD, 1993).

between trustees and constituents; (3) more involvement by a more inquisitive, less acquiescent board in governance—setting direction, questioning choices, and monitoring progress; and (4) increased oversight of the president's recommendations, performance, and compensation.

In light of the changes in corporate and academic governance, college trustees and presidents together might consider the following questions:

- Do trustees have adequate opportunities and a conducive atmosphere to discuss the board's and the president's performance? Should there be routine occasions for the trustees to meet alone?
- Should the board obtain independent information on the institution's financial condition, academic quality, and campus climate?[8]
- What are the most useful, informative, and sensitive measures of institutional performance that the board should monitor? How should the board respond when there are deviations from plans or previously approved parameters?
- How can the board best ascertain the dominant sentiment of key constituencies directly affected by significant proposals under consideration by the board? Should the board have regular communication and interaction with major stakeholders such as faculty, students, alumni, legislators, and donors?
- Should trustees have direct access to senior managers in order to obtain information and to form independent judgments about the caliber of senior staff?
- To what extent, if any, should the board or the executive committee oversee "ordinary business" and otherwise tighten the reins on presidential prerogatives?
- How can the board's performance best be evaluated and measured? In the words of GM's chairman, how can the board be held accountable for "performing its responsibilities with the same discipline and dedication that it expects of management"?

Whether greater activism on the part of governing boards proves to be a sounder arrangement that improves the quality and efficiency of colleges and universities remains to be seen. However, two studies offer some clues. First, in 1990 CALPERS pressured the directors and managers of the 24 companies with the worst performing stocks in its portfolio to improve their

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[8] In *Inside the Boardroom* (1994, p. 105), William Bowen, former president of Princeton University and current president of the Andrew Mellon Foundation, answers affirmatively: "In complex situations where much is at stake for all parties, standards of professionalism cannot be counted on to guarantee that experts hired by management will provide truly objective advice to boards that must evaluate proposals in which management may have vested interest.... There is no substitute for having one's *own* advisors, who are there only to help the directors... [I]t is a matter of being sure that the key questions are being posed, and answered, from the board's own perspective.

performance. For the five years prior to 1990, these companies lagged the S&P 500 Index by an average of 86 percentage points. Since CALPERS' initiative, these same companies each exceeded the index by an average of 109 percentage points (*New York Times,* January 30, 1994).

Second, research on independent college trusteeship discovered a systematic association between effective boards (which share many characteristics with "activist" boards) and key institutional performance indicators (Chait, Holland, Taylor, 1993). Maybe the correlations reported in these two studies were coincidental. On the other hand, perhaps activist boards do add value and do offer a competitive advantage to an organization. If so, to the extent that governing boards become more active, the future of higher education should be more promising.

About the Author

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